

MINUTES

**MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION
COMMITTEE ON STATE ADMINISTRATION**

Call to Order: By **CHAIRMAN MACK COLE**, on February 3, 1999 at
10:00 A.M., in Room 331 Capitol.

ROLL CALL

Members Present:

Sen. Mack Cole, Chairman (R)
Sen. Jon Tester (D)
Sen. Jack Wells (R)
Sen. Bill Wilson, Acting Chairman(D)

Members Excused: Sen. Don Hargrove, Vice Chairman (R)

Members Absent: None.

Staff Present: Keri Burkhardt, Committee Secretary
David Niss, Legislative Branch

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: SB 317, 1/28/1999; HB 36, HB
55, 1/27/1999
Executive Action: SB 317, HB 55

HEARING ON SB 317

Sponsor: SEN. TOM BECK, SD 28, DEER LODGE

Proponents: Keith Colbo, Montana Independent Bakers
Association, Montana Bankers Association
Jim Mochizuki, Federal Home Loan Bank, Seattle

Opponents: None.

{Tape : 1; Side : A; Approx. Time Counter : 7 - 17}

Opening Statement by Sponsor:

SEN. TOM BECK, SD 28, Deer Lodge, explained that he is a member of the Pioneer Savings and Loan Board. They do a lot of business with the Federal Home Loan Bank of Seattle. They are proposing to include a letter of credit from a federal home loan bank as a kind of security that may be pledged for deposits of public funds.

Proponents' Testimony:

Keith Colbo, Montana Independent Bankers, Montana Bankers Association, explained that both organizations agreed to this bill. The bill would allow banks to pledge the letters of credit for the deposit of public funds in those local financial institutions.

Jim Mochizuki, Federal Home Loan Bank, Seattle, explained that he is one of the regional marketing officers for the Federal Home Loan Bank of Seattle and 39 of his member accounts are in Montana. This bill would allow some of his members to pick up public funds where they may not have been able to due to certain circumstances. There are 12 federal home loan banks in the country and Montana falls into the Seattle district, so all stand by letters of credit would be issued by the Federal Home Loan Bank in Seattle. Currently, 5 states out of 8, in his district accept the stand by letter of credit from them, as collateral for public deposits. These include Washington, Oregon, Alaska, Hawaii, and Wyoming. In Idaho and Utah, collateral is not required for public funds. He said that they are asking that stand by letters of credit issued by a federal home loan bank be allowed as acceptable collateral for public deposits here in Montana. The way the change is structured provides for some flexibility because it allows for any federal home loan bank. Changes can occur in the way the banks are structured. It also provides for some flexibility for interstate banking in Montana. If the bill passes and a public entity accepts a letter of credit from any of the federal home loan banks as collateral for public funds, they receive a stand by letter of credit and a cite draft, which is our promise to pay on demand when the documents are presented. The obligations of debt and deposits of the bank in Seattle have the high credit ratings. In addition, any of their deposits, debt, and obligations are guaranteed by the other 11 federal home loan banks. The total assets of the system are about \$340 billion dollars. The total assets of the Seattle bank as of Dec. 31, 1998 \$36 billion dollars. They are a government sponsored enterprise and are regulated by an agency of the federal government. The promise to pay is independent from the underlying agreements that may exist between the Montana banks and the public entity, where the deposit is being transacted.

There are no questions asked on their part. There is no proof of non performance required before they will pay on demand, when the cited draft is presented. One of the advantages to the stand by letter of credit is that the term of the letter of credit can exactly mach the term of the deposit. Often times when collateral was posted the maturities of the underlying securities have a different maturity from the actual deposit. In this case, during the course of the deposits term, the securities have to be released because there maturing and new ones have to be put in. Another advantage is that the value of the collateral, with the stand by letter of credit, does not fluctuate during the term of the deposit, due to changing interest rates in money markets. Montana bankers need this additional option is because some of the customers in Montana are using their securities folders for other purposes. They are posting it for their own customer deposits, they are posting it with the federal reserve so they can do seasonal borrowing, or they are posting it with federal home loan so they can borrow long term funds. This will allow them to remain active in bidding for public funds in their localities or over the state in those times when they have run out of collateral that the state will accept.

{Tape : 1; Side : A; Approx. Time Counter : 17 - 21}

Closing by Sponsor:

SEN. BECK explained that this is just another tool that the banks in Montana can use to ensure public funds. Many times the banks take some of their securities to pledge to mortgages to get more funds in for loaning more money. He said that this is just a good solid line of security for the banks in Montana. In the federal home loan bank system, the other states have this in their codes. He would appreciate the committees support.

HEARING ON HB 55

Sponsor: REP. RAY PECK, HD 91, HAVRE

Proponents: Cathy Muri, Department of Administration

Opponents: None.

Opening Statement by Sponsor:

REP. RAY PECK, HD 91, Havre, said that the Department of Administration requests that this bill be brought forth every 2 years. All states do this legislatively or through a court action. It makes bond holders more comfortable and has the

effect of curing any irregularities except those that may be contested at this time. If someone is in court over a bond decision at this time, then that is left up to the courts.

Proponents' Testimony:

Cathy Muri, Department of Administration, read a Bond Validating Act testimony **EXHIBIT(sts27a01)**. She urged the support of **HB 55**.

{Tape : 1; Side : A; Approx. Time Counter : 21 - 30}

Questions from Committee Members and Responses:

SEN. COLE asked **Cathy Muri** if the legislature has to this each session for those bonds that have already been issued. She answered that he was correct. **SEN. COLE** asked if it would be effected by CI-75. **Cathy Muri** said that she believes that it will not be effected. Any bond that they will issue, whether through a vote of the people or through legislation passed will require validation. **SEN. COLE** said asked if this processed would still be used, no matter what happens, every 2 years. She answered that he was correct.

Closing by Sponsor:

REP. PECK gave the committee an example of an irregularity that this validation action would clear up, irrevocably, except if someone had challenged that and were in court over it. It will not be effected by CI-75. He explained that it is something they do all the time.

EXECUTIVE ACTION ON SB 317

Motion/Vote: **SEN. TESTER** moved that **SB 317 DO PASS**. Motion carried 5-0.

EXECUTIVE ACTION ON HB 55

Motion/Vote: **SEN. WELLS** moved that **HB 55 DO PASS**. Motion carried 5-0.

*{Tape : 1; Side : A; Approx. Time Counter : 30 - 43; Comments :
Hearing on SB 36 was not recorded due to tape recorder
malfunction.}*

HEARING ON SB 36

Sponsor: REP. JOE QUILICI, HD 36, BUTTE, did not show up for hearing.

SEN. BILL WILSON, SD 22, GREAT FALLS introduced the bill for REP. QUILICI.

Proponents: None.

Opponents: None.

Information: James Moran, Major, Department of Military Affairs

Opening Statement by Sponsor:

SEN. BILL WILSON, SD 22, GREAT FALLS, opened the hearing on HB 36.

Proponents' Testimony:

James Moran, Major, Department of Military Affairs read EXHIBIT(sts27a02).

Questions from Committee Members and Responses:

SEN. WELLS asked Major Moran if this bill includes the Air National Guard. Major Moran answered that it did.

DISCUSSION ON SB 228

SEN. WILSON resumed Acting Chairman position. The committee held a brief discussion as to when the working group for SB 228 would meet.

ADJOURNMENT

Adjournment: 10:43 A.M.

SEN. MACK COLE, Chairman

KERI BURKHARDT, Secretary

MC/KB

EXHIBIT (sts27aad)